

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7510

BILL NUMBER: SB 401

NOTE PREPARED: Feb 27, 2007

BILL AMENDED: Feb 22, 2007

SUBJECT: Compensation of State Officers and Legislators.

FIRST AUTHOR: Sen. Dillon

FIRST SPONSOR: Rep. Kuzman

BILL STATUS: As Passed Senate

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Legislator Salaries:* This bill provides that beginning in 2009, the annual salary of the members of the General Assembly is an amount equal to 18% of the annual salary of a trial court judge.

Legislator Pensions: This bill beginning in 2009:

- (1) establishes the state's annual contribution for a participant in the legislators' defined contribution plan as a percentage of the participant's salary;
- (2) requires the board of trustees of the Public Employees' Retirement Fund (PERF) to determine the percentage annually;
- (3) requires the Budget Agency to confirm the percentage determined by the PERF board; and
- (4) requires that the percentage be determined using the state's employer contribution rate to fund the pension portion of the retirement benefit for state employees who are members of PERF and the rate at which the state makes contributions to annuity savings accounts on behalf of state employees who are members of PERF.

The bill provides that the percentage may not exceed the state's total contribution rate for state employees who are members of PERF. This bill effective January 1, 2009, repeals a provision establishing the state's annual contribution for a participant in the legislators' defined contribution plan as 20% of the participant's annual salary. The bill also effective January 1, 2009, defines salary for purposes of the contributions.

Former Legislator Health Care Benefits: The bill removes the statutory authority of the President Pro Tempore of the Senate and the Speaker of the House of Representatives to elect to pay any part of the health insurance premium of a former member of the General Assembly or the spouse of a former member of the General Assembly whose last day of service is after July 31, 2007.

Public Officers Compensation Advisory Commission: This bill requires the Public Officers Compensation Advisory Commission to make recommendations regarding all elements of compensation paid or provided to a public officer. (Under current law, the Commission is limited to making recommendations regarding the salaries of public officers.) The bill requires the Commission to recommend a compensation plan that enables an individual who is a public officer to select compensation elements to meet the individual's own circumstances while ensuring that individuals who hold the same public office receive compensation of equal value.

Public Officer Salary Adjustments: This bill also provides for salary adjustments for legislators and the state elected officials for periods during which the General Assembly does not enact an increase. The bill appropriates from the state General Fund amounts sufficient to fund any salary increases.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) *Summary of Net Expenditures:* This bill will increase state expenditures beginning in FY 2008. The impact in FY 2008 would be a result of the salary adjustments required for statewide elected officials (other than the Governor) beginning January 1, 2008. The FY 2009 and FY 2010 impacts represent the sum of the provisions in the bill requiring adjustments to all statewide elected official salaries (including the Governor beginning in 2009), adjustments to legislator salaries, and the decrease in expenditures resulting from the changes to legislator pensions. The table below illustrates the ranges for the fiscal impact in FY 2008 through FY 2010.

Year	Net additional expenditures with 2% adjustments	Net additional expenditures with 4% adjustments
FY 2008	\$10,000	\$20,000
FY 2009	\$1,360,000	\$1,370,000
FY 2010	\$1,410,000	\$1,470,000

This estimate assumes the adjustments to trial court judges' salaries will be at a rate of 2.5% until FY 2009. The estimated ranges assume future salary adjustments under the bill will be between 2% and 4% each year.

(Revised) *Legislator Salaries:* This bill provides the annual salary for legislators shall be 18% of the annual salary of a trial court judge. It is estimated that this provision may increase state expenditures by approximately \$1.7 M in FY 2009. The FY 2010 impact will be determined by the percentage adjustment to trial judges' salaries under IC 33-38-5-8.1. It is estimated the impact in FY 2010 will be between \$1.74 M and \$1.78 M.

Trial judges' salaries are adjusted by statute each year at the same percentage as the increase for executive branch employees. The estimate for FY 2010 above assumes the increase in state employee salaries will range from 2% to 4%. This estimate also includes the increase in fringe benefits paid for by the state based on a percentage of each employee's salary. These fringe benefit items include contributions by the state for life insurance, disability insurance, and social security. Legislator salaries are paid out of the state General Fund. The current annual salary of legislators is \$11,600.

(Revised) *Legislator Pensions:* This bill also makes several changes to legislator pension benefits beginning

in January 2009. The overall impact of these changes will result in a decrease in state expenditures of approximately \$355,000 in FY 2009. The decrease in FY 2010, depending on the level of salary adjustment, will be between \$325,000 and \$340,000. This estimate assumes the state's contribution to legislator pensions will be the maximum allowed under the bill of a percentage not to exceed the state pension contribution for all other state employees. This percentage is currently 9.3% of an employee's salary. The savings will be realized by the 10.7% decrease (20% minus 9.3%) in the state's required contribution to legislator pensions. The estimated savings are somewhat offset by the bill's expansion of the definition of legislative salary used in making the pension contribution calculation.

The bill requires the board of trustees of PERF to determine the state's contribution percentage for legislator pensions. The bill repeals the current statute establishing the state's annual contribution for a participant in the legislators' defined contribution plan as 20% of the participant's annual salary. The bill also expands the definition of salary items which are included in the calculation of the state's contribution to legislator pensions.

(Revised) Former Legislator Health Care Benefits: The state currently pays a share of the health insurance premium for former state legislators (or surviving spouses) who have served in all or part of at least four terms of the General Assembly and who choose to participate in the state employee group health insurance program. The amount paid by the state is the same percentage employer share of the premium paid for active state employees as existed at the time of the legislator's retirement. This bill eliminates the authority of the House and Senate as employer to pay for any part of the health insurance premiums of former legislators and spouses who have not retired from legislative service by July 31, 2007. Former legislators who have already retired from legislative service and are participating in the health insurance program will be unaffected. With respect to the current pool of former legislators and the treatment of future retiring legislators, these provisions are consistent with the current elections of both the House and the Senate and will have no additional fiscal impact other than prohibiting any future elections that might have otherwise differed from the provisions of this bill.

Current statute permits former legislators to qualify for the group health insurance program after serving in all or part of at least four terms of the General Assembly. This provision will continue, but future retiring legislators will be required to pay 100% of both the employee and employer shares of the premium costs.

Background Information: The annual premiums for health benefit coverage currently range from \$4,204 to \$5,470 for single coverage and \$11,561 to \$15,042 for family coverage (2007 rates). Currently, the employer share of premiums for active employees for the five health plans ranges from 76.9% to 100% for both single and family coverage.

Public Officers Compensation Advisory Commission: The provisions in the bill relating to the duties of the Commission will have no fiscal impact. The Commission is required to operate under the rules of the Legislative Council. Therefore, although the Commission's duties would be expanded by this bill, the Commission's budget would still be established by the Legislative Council. In LCR 06-02 (2006 interim) the Council budgeted \$9,000 for each committee or commission with less than 16 members (the Public Officers Compensation Advisory Commission has 9 members).

(Revised) Public Officer Salary Adjustments: The salary adjustments for state elected officials could increase state expenditures ranging from \$12,000 to \$25,000 per year beginning in FY 2008. This estimate assumes that the average increase in state employee salaries will fall between 2% and 4% each year. This estimate also includes the increase in fringe benefits paid for by the state based on a percentage of each employee's

salary. These fringe benefit items include contributions by the state for retirement benefits, life insurance, disability insurance, and social security. The bill requires that money be appropriated from the state General Fund to fund any of these salary increases. The bill provides that after January 1, 2009, salary adjustments be made each year for state elected officials equal to the statewide average increase in state employee salaries, if there was no statutory adjustment by the General Assembly in the previous year.

Background: Between FY 2001 and 2006, salary adjustments for state employees in the executive branch ranged from no salary increase in 2002 to an increase of 4% in 2001. Therefore, the exact amount of the increased expenditures will ultimately depend upon actions of the General Assembly and/or the statewide average increase in state employee salaries granted by the executive branch. It must also be noted that the increase in state expenditures will compound each year because future increases will be applied to a salary that was most likely increased in the prior year.

The current salaries for public officers listed in the bill are as follows.

OFFICER	SALARY
Governor	\$95,000
Lieutenant Governor	\$76,000
Secretary of State	\$66,000
Auditor	\$66,000
Treasurer	\$66,000
Attorney General	\$79,400
Superintendent	\$79,400

Explanation of State Revenues: *Public Officer Salary Adjustments:* Beginning in FY 2009, there could be a slight increase in state individual Adjusted Gross Income Tax collections as a result of the increase in salaries for legislators and state elected officials.

Explanation of Local Expenditures:

Explanation of Local Revenues: See *Explanation of State Revenues*.

State Agencies Affected: General Assembly; Governor; Lieutenant Governor; Secretary of State; Superintendent of Public Instruction; Auditor; Treasurer; Attorney General.

Local Agencies Affected:

Information Sources:

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